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# C The Canadian Chartered Accountant A

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AUGUST 1951

NUMBER 2

## COMMENT AND OPINION

### An Important Decision

**A**CCOUNTANTS in this country will be greatly interested in a recent decision of the English Court of Appeal concerning the duty of care owed by accountants to third persons in the performance of their duties. In this case, *Candler v. Crane, Christmas & Co.*, the plaintiff invested money in a company on the strength of financial statements prepared for the purpose by an employee of the company's auditors. The accounts gave a false picture of the company's position and some of the information had not been verified by the auditors. The company went bankrupt and the plaintiff sued the auditors for damages for negligence. In a split decision the Court of Appeal held that the auditors owed no duty of care to the plaintiff, and his action was in result dismissed.

In an able commentary on the decision in *The Accountant's Journal* (May 1951) J. L. Gayler, a British barrister, points out that the decision narrows the application of the doctrine laid down in the famous case of *Donoghue v. Stevenson*, where Lord Atkin said that liability for negligence arises where injury is caused to persons "who are so closely and directly affected by my act that I ought reasonably to have them in contemplation as being so affected when I am directing my mind to the acts or omissions which are called in question." In the *Candler* case the majority of the Court of Appeal held that this passage

was confined to conduct causing physical injury to person or property. As Mr. Gayler points out, this view of the law is identical to that expressed by the United States Supreme Court in the famous *Ultramares* case some years ago.

In the article referred to, Mr. Gayler suggests that it is illogical that a want of care causing physical injury should be actionable whilst a want of care causing financial injury should not be. Even in cases of physical injury, he points out, the plaintiff sues because the injury has put him to monetary loss. Perhaps the matter is not settled beyond all doubt, as the House of Lords may yet be heard from, if not in this case, in another.

### A Censure on Accountants

**T**HE press has given fairly wide publicity to the censure heaped by Mr. W. S. Fisher, K.C. upon the anonymous accountant who failed to appear to represent his client at a hearing before the Income Tax Appeal Board in Ottawa, and left her to plead her own cause (which, fortunately, she did with success). Mr. Fisher concluded his animadversions with the comment that he had no doubt that the Accountants' Associations will see to it that their members are instructed as to their responsibilities when they take it upon themselves to represent a client in proceedings before the Board.

For the unknown accountant in question Mr. Fisher's strictures are amply

justified, and he and the Income Tax Appeal Board may rest assured that such conduct is not and will not be countenanced in any member of an Institute of Chartered Accountants in this country. Whether or not the accountant to whom his remarks were directed is in fact a chartered accountant we have, however, no means of knowing since the case in question was heard *in camera* and the identities of the parties and of counsel, and even of the Province in which the case arose, have been withheld. A chartered accountant guilty of the impugned conduct would certainly receive short shrift from the disciplinary committee of his Institute.

Having said this we should like, however, to take exception to this additional comment of Mr. Fisher's in the same judgment. Said he:

If accountants are going to take upon themselves the responsibility of appearing before this Board on behalf of clients, as they have a perfect right to do, they must realize and accept the full responsibility which they have undertaken . . . if particular accountants or other agents are found *not* to be responsible parties, and cannot be depended upon to make their appearance before the Board at the time fixed for a hearing or to comply with the rules of the Board by making applications for postponements or adjournments in *bona fide* cases where an adjournment is necessary, it may become necessary to consider whether a list should be established of persons who, from the Board's experience, should not be entitled to appear before the Board on behalf of clients.

We do not concur with Mr. Fisher that the default of one accountant in meeting his obligations is sufficient warrant for a general warning of this nature directed to *all* accountants. His words carry the implication that accountants as a class are not alive to their professional responsibilities. That, of course, is not true, and we take some satisfaction from the fact that neither the Chairman of the Board nor Mr. Fordham saw fit to ally themselves with Mr. Fisher in these expressions, but contented themselves with deciding the case before the Board.

#### Second Inter-American Conference on Accounting, Mexico City, November 13 - 16, 1951

AN invitation has been extended to all accountants and members of related professions in Canada to attend the Second Inter-American Conference on Accounting to be held at Mexico City from November 13 to 16, 1951. The theme of the conference will be "The Accountant as a Factor in World Economic Development", and the sessions are open to visitors as well as official delegates from the accounting organizations in the Americas. Papers on technical subjects will be read and proposals for an improved orientation and development of the profession in the American countries will be discussed. The Mexican accountants, under whose auspices the conference is being conducted, have also arranged an excellent program of entertainment.

# Trends in Capital Investment in Canada

By Gerald C. Ryan, O.B.E.

An examination of the highly-organized Canadian capital market

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**D**OMESTIC capital expansion is one of the two major stimuli of the whole Canadian economy, export trade being the other. Stated another way, the volume of capital investment by private enterprise, governments and institutions is one of the most important determinants of national prosperity.

Since the close of the second world war capital expenditures in this country have reached unprecedented heights both in terms of physical volume and dollar value. Each year has been a record-breaker. To give an idea of the magnitude of this new investment, I will mention a list of steadily mounting totals of expenditures, the figures given being in millions of dollars: 1946, \$1,600; 1947, \$2,400; 1948, \$3,200; 1949, \$3,500; estimate for 1950, \$3,800. After adjustment for price changes, the physical volume of investment estimated for 1950 exceeds that of 1946 by about 60%.

It is important to note that these figures measure the *gross* addition to the stock of capital goods in Canada. To arrive at the *net* addition would require the deduction of expenditures for the replacement of worn-out or obsolete

assets. Of course, it is this net addition which is important in assessing economic growth. Although no figures on this are available, it is authoritatively stated that a large proportion of post-war capital investment is accounted for by the net addition element.

## Gross Investment of 14.5 Billions

Returning to the main theme, in round figures, the actual and estimated capital investment in Canada during the five years 1946-1950 by business (including agriculture), governments and institutions aggregated \$14,500 millions, or \$14.5 billions. These are figures which, during the immediate post-war period, would have seemed well beyond reasonable expectations both as to size and continuity of expansion. Both private and public spending have played important parts but naturally a special interest lies in the proportion of capital expenditures attributed to private enterprise. It is worth noting, therefore, that the expenditures of business undertakings (excluding housing and government-owned corporations) accounted for more than half the total annual investment during

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An address to the Quebec Students' Society, Montreal, February 22, 1951

the early post-war years. Subsequently, although continuing to increase in absolute dollar size, the share of business in the ever larger gross totals gradually declined to about 49% in 1949 (the proportion for 1950 not yet being known). This reflects, amongst other things, the increasing importance of investment in government-owned utilities, educational, hospital and housing facilities as well as higher military expenditures.

The dominating factors in the field of capital investment during 1946-50 can, I think, be summarized as follows:

- (a) expansion and modernization of plant and equipment to meet peace-time requirements;
- (b) rise in residential construction;
- (c) intensive development of oil, iron ore and other natural resources;
- (d) expansion of provincial and municipal services (publicly-owned utilities, highways, roads, schools, bridges, waterworks, sewers, etc.).

#### Effect of Defence Program

Capital investment in Canada for the current year is tentatively forecast at \$4,250 millions. Detailed breakdowns are not yet available but it is obvious that defence requirements are going to loom progressively larger in the overall picture. Many of the present plans of business for capital expansion are likely to be affected by the over-riding importance of defence needs. Non-essential projects will have to give way where they compete with government requirements of building materials, steel, and so on. Substantial changes in type if not in size of investment outlays are therefore in prospect.

There are, however, some very large projects by private enterprise which will very substantially increase the production of materials essential to national defence.

These include the vast British Columbia development planned by Aluminum Company of Canada which would take up to five years to complete at an estimated cost of \$555-600 millions, and the expansion plans, estimated to cost approximately \$45 millions, of Steel Company of Canada.

#### Indication of Some of the Principal Sources of Long-term Capital Funds

Up to now I have been dealing with the spending of money. There have been mentioned figures of great magnitude, especially for a country of relatively small population.

Long-term capital for investment in Canada comes from a variety of sources, including the following (it being understood that the order of sequence is not intended to denote relative importance): (a) from other countries; (b) from indistributed profits of companies in Canada engaged in capital investment and from the reserves they set aside for depreciation of assets; (c) from the Industrial Development Bank, insurance companies, loan companies and other financial institutions in Canada; and (d) from the proceeds of public financing in the Canadian capital market. This list is not comprehensive but it seems to me to cover most of the highlights.

External capital has long played a very significant role in the development of this country. But it is well to bear in mind that although new capital from outside is still important and desirable, Canada to-day is relying less on foreign money than ever before. It is capital from Canadian sources which has financed the greater part of the country's development since 1939. Total foreign investments in Canada, although increasing in absolute dollar size, now constitute a much smaller percentage of the aggregate capital invested in this country than at any earlier period.

### U.S.A. Main Source of Foreign Capital

United States capital now forms the bulk of non-resident investment here. It is estimated that at the close of 1949 (the latest date for which Dominion Bureau of Statistics figures are at present available), United States investments in this country approximated \$5.8 billions, or about 74% of the total non-resident investment at that time of an estimated \$7.9 billions.

The free nations of Continental Europe are showing an increasing awareness of the investment attractions of Canada. Pre-war contacts of Canadian investment firms with financial interests in Switzerland, France, Belgium, and other countries have been resumed and important new connections formed in order to stimulate the flow of European capital to this country. Where permitted by regulations governing the export of capital, considerable sums of money are coming out of these centres for investment here and more is likely to follow.

The second source of long-term capital funds which I mentioned — retained earnings and sums set aside for depreciation reserves — is very important. A large proportion of capital investment by corporations in Canada is, of course, of this self-financed variety.

The third source comprises the large institutional lenders. The Industrial Development Bank, a subsidiary of the Bank of Canada, was formed in 1944 to extend financial assistance to sound industrial enterprises unable to borrow through other channels on reasonable terms. Activities of other institutional lenders (apart from the purchase of new securities on the capital market) include the making of mortgage loans direct to individuals and industry. During the last few years, life insurance companies have become increasingly active in the field of housing loans.

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Mr. Gerald C. Ryan, O.B.E. is president of L. G. Beaubien & Co. Ltd., a partner in the firm of L. G. Beaubien & Cie, and a member of the Montreal Stock Exchange. He is past president of the Investment Dealers Association of Canada and is presently serving a second term as president of the Canadian Council of the Canadian Chamber of Commerce. During the war he was chairman of the National War Finance Committee, Quebec Region.

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The fourth source has to do with the Canadian capital market, and I propose to deal with it at some length.

### Development of the Canadian Capital Market

The term "capital market" is used here with special reference to public financing, that is to say to the raising of capital by the sale of security issues to the public.

Up to the early nineteen hundreds there was no active capital market in Canada. Although there were a number of investment and brokerage firms in operation, the work of the brokers was mainly confined to trading in the listed securities of a relatively few companies, while the investment houses really acted for the most part as purchasing agents for the London market. Savings of Canadians were comparatively small and were invested for the most part in real estate and mortgages or left on deposit with the banks.

Consequently, the development of Canada during the earlier years was chiefly financed by external capital, with the United Kingdom as the principal source of funds. However, with the outbreak of the first world war the picture changed significantly. Virtually cut off from the British capital market in 1914 and from



the New York market in 1917, Canada was forced to seek capital within her own borders. Victory Loan campaigns were organized with remarkable success, as a result of which Canadians gradually and for the first time became bond-conscious. Over \$2 billions were subscribed, a highly creditable showing and a very useful counter-inflationary measure.

In the subsequent inter-war years, the inflow of external capital recommenced and United States investments in Canada reached very high levels. Concurrently, however, there was a progressive development of internal sources of capital, and bond and stock issues became a familiar medium of investment for Canadians.

### War Financing

The outbreak of the second world war once more threw this country on its own financial resources. It was early decided to meet a large part of the war expenditures out of tax revenue. As it turned out, the costs of the war were financed roughly speaking, 50-50 by taxation and by borrowing. Despite this remarkable achievement (actually, one of the best in the world), vast sums had to be borrowed — so vast that the years 1940-1945 witnessed an all-time high in the volume of Canadian government financing.

In order to harness to the war effort the maximum voluntary savings of the Canadian people, there were set up various organizations which in January, 1942 became the National War Finance Committee. One of the Committee's principal jobs was to ensure the canvass of every potential buyer of government securities in every income group and in every part of Canada. To the extent humanly possible, this was done. And it was done in a series of nation-wide campaigns geared to pursue and obtain the \$50 subscription as enthusiastically as the million dollar order. The number of persons associated with the committee's ac-

tivities varied from a high of around 150,000 at the time of Victory Loan campaigns to a few thousand during inter-loan periods, a large proportion in each case being voluntary workers.

The organization was sound, the national need compelling and the response, without exaggeration, terrific. During the six years 1940-1945 total cash sales of War Loan and Victory Bonds approximated \$12¼ billions. Contrary to the practice adopted in the first world war, no inducement was offered in the form of high interest coupons or tax exemption. Nevertheless, purchases by individuals accounted for over \$5.8 billions, or almost 48% of the total. Hundreds of thousands of Canadians, many of whom had never before seen a bond, subscribed to the loans.

### Post-War Effect

The result was an enormous addition to the bond-buying public and a powerful stimulus to the development of the Canadian bond market. Of course, many subscribers to the Victory Loans were bond investors only for the duration of the war. But a surprising number of them have carried forward the habit into post-war years, as witness the success of Canada Savings Bonds.

This brief survey brings us up to the highly-organized capital market which operates in Canada to-day and to an examination of its post-war performance.

During the five years 1946-1950, Canadian bond financing on the domestic market, including sales to the banks of Canadian government securities with a term to maturity of one year or more, aggregated almost \$9 billions in new issues and refunding loans.

During this period, domestic bond financing by the Government of Canada took the form of the sale of short-term securities to the banks, sales to individuals of Canada Savings Bonds and two pub-



lidy offered refunding loans of \$745 millions and \$700 millions respectively. On balance, there has been a net reduction in the combined total of federal direct and guaranteed funded debt as retirements have exceeded new financing. On the other hand, the post-war capital market in Canada has witnessed sharp increases in borrowings by provincial governments and municipalities, chiefly to finance the cost of capital works deferred during the war, and some large-scale financing by business.

Post-war public utility and industrial financing has, in fact, been notable for the size of public offerings in the Canadian market. Take, for example, Bell Telephone. Of recent years this company has engaged in bond and common stock financing in Canada to an aggregate of about \$241 millions (mostly new money) and preparations for additional financing are under way. Shawinigan Water and Power has also been a prominent figure in the domestic capital market: excluding sizeable refunding operations, public offerings of Shawinigan securities to Canadian investors during the post-war years to date total a face value of \$35 millions in first mortgage bonds and \$25 millions in preferred stock, or a total of \$60 millions. Important issues during the winter months of 1950 included the offering of \$50 million debentures of Aluminum Company of Canada. You will doubtless also recall, amongst earlier financing, the following: \$44.5 million first mortgage bonds and convertible debentures of Interprovincial Pipe Line (the organization created for the construction and operation of the Western oil pipe line); \$50 million Imperial Oil debentures (both refunding and new money); \$20 million first and general mortgage bonds of Columbia Cellulose, the new West Coast enterprise. There have also been sizeable stock offerings on the domestic market.

### Reduction of Debt Held Abroad

One important result of post-war financing policy has been a substantial net retirement of Canadian bonds payable in foreign (mainly U.S.) currency. Also to be noted is the decline since 1939 in the relative importance of external holdings of Canadian bonds to total Canadian funded debt. Chiefly because of the heavy domestic financing characteristic of the Second World War and post-war period, and also because of the war-time repatriations of Canadian bonds from the United Kingdom, the proportion of the total funded debt of Canadian governments and corporations estimated as owned by non-residents declined from about 33% as at December 31, 1939 to 14% at the close of 1949 (the latest date for which Dominion Bureau of Statistics figures are at present available).

To sum up, Canada's capital market is actively associated with the financing of her post-war economic expansion. Through the nation-wide ramifications of the market, very considerable sums have been drawn from large and small investors all across the country and put to work in government, industry and commerce. It is a busy market, generally conservative in temper and with some rather well-marked characteristics which may be traced in a summary way, as follows:

- (1) Bond yields: holding at the higher levels established in the closing months of last year. For example, Canadian Government long-term bonds at present command about 3% as compared with approximately  $2\frac{3}{4}\%$  last October;
- (2) Ready market for new security issues of investment status;
- (3) Growing popularity of industrial convertible debentures, i.e. debentures exchangeable, at the holders' option, for a specified number of shares of capital stock.

### THE SIXTH INTERNATIONAL CONGRESS ON ACCOUNTING, 1952

The Council of The Sixth International Congress on Accounting, to be held in London next year, announces that the following subjects will be discussed during the period of the congress, Monday, June 16, 1952 to Friday, June 20, 1952:

1. Fluctuating price levels in relation to accounts.
2. Accounting requirements for issues of capital.
3. The accountant in industry.
4. The accountant in practice and in public service.
5. The incidence of taxation.

The provisional program of events is as follows:—

1952	Morning	Afternoon	Evening
<b>Monday</b>	Service at Westminster	Address of Welcome	Reception
16th June	Abbey followed by tours of the Abbey	at Royal Horticultural Hall	
<b>Tuesday</b>	First Session	Second Session	Theatre entertainment
17th June			
<b>Wednesday</b>	Third Session	(a) Fourth Session	Banquet at
18th June		(b) First tour of London for ladies	Guildhall
<b>Thursday</b>	Visits to various places of interest		Dinner parties
19th June			
<b>Friday</b>	Fifth Session	(a) Sixth Session	Ball
20th June		(b) Second tour of London for ladies	

Invitations to attend the Congress have now been issued to accounting bodies in the following countries:—

Africa	Costa Rica	India	Peru
Argentina	Cuba	Israel	Philippines
Australia	Denmark	Italy	Portugal
Austria	Ecuador	Japan	Salvador
Belgium	Egypt	Malta	Spain
Bolivia	Finland	Mexico	Sweden
Brazil	France	Netherlands	Switzerland
Burma	Germany	New Zealand	United States
Canada	Guatemala	Norway	Uruguay
Chile	Honduras	Pakistan	Venezuela

As already announced, the following professional organizations will be hosts:—

- The Institute of Chartered Accountants of Scotland
- The Institute of Chartered Accountants in England and Wales
- The Institute of Chartered Accountants in Ireland
- The Society of Incorporated Accountants and Auditors
- The Association of Certified and Corporate Accountants
- The Institute of Municipal Treasurers and Accountants
- The Institute of Cost and Works Accountants.

## Control of Assets (Continued)

By W. G. Leonard, F.C.A.

Assistant Professor of Commerce, Queen's University

*This is the second of three articles on this subject. The first provided a general introduction of the topic and a discussion of the techniques of control over acquisition of cash. This article concludes the discussion of cash control and deals also with control over receivables and over acquisition of inventories.*

### 1. CASH

#### (b) Custody of Cash

**T**HE best working rule with regard to cash in the form of currency is never to permit any greater quantity to be retained on the business premises than is made necessary by the immediate requirements of the business and to operate as tight a system of rules and safeguards around its handling as the ingenuity of management can devise. Safeguards should include the establishment of well defined personal responsibilities for the handling of all cash funds plus the unbreakable rule that properly signed receipt vouchers must be obtained and kept on file for all disbursements of currency.

In all cases where the daily bank deposits are likely to include quantities of currency it probably is wise policy to carry an insurance policy, against the risk of loss from armed robbery, on the messenger who carries the deposits from the place of business to the bank.

In most businesses the efficient internal control of cash is closely related

to intelligent use of the bank account. The bank account is relatively so much more important than the petty cash funds or change funds that once a good system of daily depositing is established and enforced, the really important and effective safeguards of cash are the rules governing disbursements or withdrawals from the business bank account.

#### Utilization and Disposal of Cash

For this asset, utilization is the same as disposal. Money is used when it is spent. The effective control of disbursements from the bank account may be broken down into five main steps or operations:

- (i) authorization of payment;
- (ii) preparation of cheques;
- (iii) signing of cheques;
- (iv) mailing or delivery of cheques;
- (v) reconciliation of bank account.

Whenever practicable, it is desirable that each of these five operations be performed independently by different persons. A brief description of each is presented below:

*(i) Authorization of payment*

Most business disbursements will represent payment for goods or services purchased by the business or on account of indebtedness arising out of such purchases. Before the signing officers of a business make a disbursement, they need to have before them written evidence that the goods or services were actually received by the business, that the purchase was approved by proper authority, and that the description of the goods received coincides with that of the goods ordered; also that the prices and calculations have been verified in detail. The usual procedure is to make use of a printed purchase voucher form to which is attached verified copies of order forms, purchase invoice, freight bills, duty vouchers, and other pertinent documents. In a large business, a formal requisition will be made out requesting issue of a cheque, but in smaller businesses the requests may be made verbally.

*(ii) Preparation of cheques*

The usual procedure is to operate an official cheque book consisting of cheque forms specially printed for the use of business. The cheque forms should be machine-numbered by the printers to permit subsequent identification of every disbursement transaction. The cheque book should be in personal custody of that officer of the business who has the duty of making sure that vouchers are properly authorized for payment before a cheque form is filled out and presented for signature. A rule should be enforced that all cheques must be made out in the name of the creditor organization so that the endorsement of the cheque in the name of the payee will constitute legal proof of satisfaction of the debt. The paid cheques are returned periodically to the business by the bank and are kept on file by the business so that this proof of payment will be avail-

able in the event of any subsequent dispute.

*(iii) Signing of cheques*

Many businesses provide a useful measure of control by the device of having all cheques countersigned; i.e., a rule is enforced that each cheque requires signatures of two persons — the first signature for the purpose of signifying the propriety of the disbursement and the second signature authorizing the bank to honour the cheque for payment. The signing officers should appreciate the importance of the tasks which they perform in safeguarding the proper disbursement of business funds and should not develop the habit of performing their duties in a casual or perfunctory manner.

*(iv) Mailing or delivery of cheques*

All reasonable precautions should be taken to make sure that cheques are mailed or delivered to the person who actually is entitled to payment. As most business dealings are with business firms with well known business addresses, few problems of any consequence are likely to arise in this connection.

*(v) Reconciliation of bank account*

The bank account of the business at any given date will represent either a certain figure of indebtedness from the bank to the business or a certain figure of indebtedness from the business to the bank. It is obvious that the indebtedness shown by the books of the bank should be the same figure as the corresponding indebtedness shown by the books of the business. However, it will quite commonly be found in practice that some of the cheques issued by the business will not have been presented to the bank for payment, so that at any given date, the bank's version of the account may show too optimistic a picture of the finances of the business by the amount of the outstanding cheques.

So, at any time, there will likely be found two different versions of the state of the business bank account, one version showing the net result of all transactions which have been recorded on the books of the business and the other version showing the net result of all transactions which have been recorded in the books of the bank. If it can be proven that the difference between the two different versions merely results from outstanding items whose recording will be completed in due course as a matter of ordinary routine, no concern need be felt for this type of difference may be expected to correct itself. However, it is necessary to ascertain whether the precise amount of the difference may be explained by such items or whether part of the difference may not be caused by errors either of omission or of commission in one or the other sets of records. It is necessary to check the records in detail to find which of the conflicting versions accurately reflects the facts of the case and to obtain corrections of the errors which are found to have been made. A formal statement known as a bank reconciliation statement is prepared at least once a month for the purpose of proving that the outstanding differences between the two versions of the bank account are due solely to the "transit" items which may be expected to adjust themselves automatically in the ordinary course of business.

In addition to these detailed types of controls over the disbursements, some managements adopt an over-all administrative control over the financial transactions of the business by a device known as the cash budget. At the time of its inception, the budget is a plan or forecast showing month by month the total cash which the business expects to take in under various headings and also the total disbursements which the business expects to make

under various headings. As the year progresses, monthly reports are compiled showing by how much the receipts or disbursements under the various headings over-shot or under-shot the targets established in the budget plan. The comparison of actual accomplishments with the forecasts is accompanied by a study of the reasons for any disappointing performances so that remedial measures may be put into effect immediately after the need for them is made apparent to the budget committee which must, of course, include top-level administrative personnel in order to be effective.

## 2. RECEIVABLES

### (a) Acquisition of Receivables

Receivables are acquired by a business whenever it sells goods or services on terms which permit the payment from the buyers to be delayed until some future time. Receivables are legally enforceable promises of future payment.

The sales which result in acquisition of this type of asset may be made in one of three ways:

- (i) verbally — over the counter by acceptance of the customer's verbal offer to buy;
- (ii) by acceptance of written orders turned in by commission agents or travelling salesmen employed by the business to solicit such orders;
- (iii) by acceptance of written orders received through mail directly from prospective customers.

In all cases, it is usual to base the control procedures on the written sales orders of which multiple copies are prepared on machine-numbered forms. When a business receives an offer to purchase or an "order" from a prospective customer involving the grant of credit terms to the customer in the event of acceptance of the offer, it is usual to

refer the matter to the credit manager or credit department whose duty it is to determine whether or not the prospective customer is credit-worthy and whether the business is willing to assume a credit risk by the acceptance of his offer. If the order is approved, the credit manager signs or initials his approval on the face of the order.

The next step is to ascertain whether or not the goods ordered by the customer are in stock and available for immediate shipment or whether it will be necessary to procure or manufacture them. Then the necessary instructions are issued covering the procurement, manufacture, or shipment of the goods. When the goods are shipped, a sales invoice will be made out billing the customer with the agreed sales price of the goods. Usually, the sales invoice will be prepared in triplicate, one copy going to the customer, a second to the bookkeeping department, and a third remaining on file in the billing department.

In cases of dispute it may be necessary to ascertain the precise point of time when the asset "goods on hand and available for sale" becomes transformed into the asset "accounts receivable from customers". The legal answer is that the agreement of sale becomes an actual sale and property in the goods passes from the seller to the buyer at the time when the goods are irrevocably allocated for the benefit of or delivered to the buyer. Usually, this is at the time of shipment: i.e. at the time when the goods are placed in custody of a common carrier with instructions to deliver to the buyer. At the precise moment of the passing of legal title the sales amount becomes a legally enforceable debt owing from the customer to the business.

Therefore, it becomes the duty of any employee of the business who ships or delivers goods to a customer to make sure that the customer will be billed for

the amount which becomes owing to the business as a result of this action. The usual control procedure is to furnish the shipping department with one copy of all the sales orders. Shipping instructions will have been written in on the space provided in the sales order form either by the customer or by the salesman taking the order. On shipment, the shipping department will supply the billing department with a memorandum of the quantity and description of the goods shipped and this memorandum will be cross-indexed by number to a copy of the sales order one copy of which will also have been supplied to the billing department. The billing department prepares several copies of the sales invoice, one copy of which goes to the customer and one copy to the bookkeeping department for entry into the appropriate records and accounts.

Sales documents such as sales orders, shipping memoranda, sales invoices, etc. should be prepared on special forms machine-numbered consecutively by the printers and with provision for cross-indexing of form numbers. It is important that supplies of blank forms be controlled to prevent unauthorized use and that provision be made for a periodic check which will make sure that all consecutive numbers have been properly accounted for.

When the management establishes a good mechanical control of the handling of sales orders received through routine business channels, one danger still remains. This danger is the possibility of theft of goods directly out of the factory or out of the warehouse, in which case no documents would be prepared and no written records made from which evidence of the loss could be obtained. I will deal with the controls which may be devised to minimize this type of risk under the general topic "custody of inventories" which will be dealt with in



its proper sequence according to the plan given in the introduction.

#### (b) Custody of Receivables

When a formal bookkeeping record has been made of the debts owing to a business from its customers, the problem of custody is largely a matter of book-keeping routine. This does not mean, however, that management can afford to ignore this particular area of administrative responsibility. If the bookkeeping staff is competent and energetic, a rule is enforced that all entries are made on the business day following that on which the transactions took place, and if all reconciliations and trial balances are prepared promptly and used to search out and correct the bookkeeping errors, then the management can safely rely on the book figures. However, it is the duty of management to make sure that adequate standards of performance are laid down for and observed by the book-keeping staff as failure to keep the records up to date or to prove the balancing of the work periodically may result in some very embarrassing errors with resultant losses to the business.

Where the volume of accounts receivable bookkeeping is considerable, it is usual to make use of mechanical book-keeping machines and to operate the actual accounts receivable on ledger cards. Provision is made for mechanical proof of the accuracy of the posting work at the time when the postings are made. This is done by the segregation of the cards on which postings are currently being made and calculation of three totals for these segregated cards; i.e. (i) total balances on cards prior to postings plus (ii) total postings entered on the machine equal (iii) total balances on cards subsequent to posting. If this proof is worked out carefully by the machine operator for each batch of postings at the time when they are made,

the possibility of finding and correcting the posting errors at the time they are made is greatly enhanced. Unfortunately, however, this type of mechanical proof will not indicate the type of posting error where the correct figure has been posted to the account of the wrong customer. The only way to provide against this possibility is to have the names of the customers and the amounts called back from the ledger cards to the original records. Some managements insist that this be done daily in order to safeguard against the protests of indignant customers who are asked to pay accounts which they do not owe. Other managements prefer to take a calculated risk that errors of this sort will not occur frequently enough to warrant the extra cost of this type of checking and that a prompt apology will soothe the injured feelings of the customer in all such cases.

It is important to insist that a trial balance of the accounts receivable be taken at the end of each month. This trial balance is designed to prove not only the mechanical accuracy of the postings which have been made but also to prove that all appropriate book entries have been included in the postings. If any item which has been included in the accounts receivable control account totals is omitted from the customers' accounts or vice versa, or if any postings have been duplicated, the lack of agreement in the accounts receivable trial balance will show that something is wrong and that there are errors to be searched for and corrected.

Ordinarily an account receivable from a customer is carried on the books until it is cancelled by payment of the account. Sometimes, however, accounts receivable balances may be cancelled or reduced for other reasons and special safeguards are necessary to reduce the risk of loss from unauthorized credits to customers' accounts.

Customers often will make claims that goods shipped to them were defective in quality, or that the quantities shipped to them were less than the quantities billed, or that the prices billed to them were too high for the quality ordered, etc. In such cases the customer will claim a reduction of the amounts owing as shown by their accounts.

If, upon investigation, the customer's claim is found to be valid, an allowance to him is authorized and a credit note is issued which has the effect of cancelling a portion of the account receivable previously outstanding against him. The procedure for authorizing these credits to customers must be subject to adequate control as the possibilities of loss are rather obvious.

These include the possibility of a too perfunctory granting of allowances by careless employees to cover up their own bookkeeping errors and various possibilities of fraudulent manipulation of the accounts by dishonest employees to cover cash received from customers and not deposited in the business bank account or recorded in the books.

It is important to enforce a rule that allowances to customers are not to be made on the sole authority of any employee whose duties include the keeping of the customers' accounts, the billing of customers, or the handling of remittances from customers. Good control procedure requires the signed authorization of a responsible official for all such allowances. This official should inquire into the circumstances of each request for an allowance and if requests become at all numerous, should take steps to remedy the situations giving rise to the errors which the allowances are designed to correct.

A similar control procedure is desirable with regard to bad debts. It sometimes happens that customers who were

deemed credit-worthy at the time when credit terms were granted to them may be found to be in financial difficulties when the time comes round to request payment of their accounts. Sometimes, the customer may become bankrupt and the trustee in bankruptcy will be able to realize sufficient funds from the customer's assets to pay each creditor only a few cents on each dollar owed by him. When this happens, each creditor must write off the balance of the account as a bad debt. The policy decision which the business must make as to whether further collection efforts are warranted with regard to any doubtful account or as to whether the account should be abandoned as a bad debt should be made by a responsible official outside the bookkeeping department which department should be required to obtain the written authorization of this official before effecting any write-off of an accounts receivable balance.

### (c) Utilization of Receivables

In some types of business, particularly those which sell durable goods such as furniture, automobiles, radios, or refrigerators, on the instalment plan, the business will customarily make use of its accounts receivable to borrow money to finance its business. A common method is by discounting the customers' receivables with a finance company. The finance company buys the instalment contract for a cash payment which will be smaller than the total amount of the contract by the amount of the discount or "service charge".

Another common method is the negotiation of a loan from a chartered bank on the security of the customer's receivables. This involves an obligation to make sure that payments received from customers are paid into the appropriate account operated by the bank which granted the loan.



In comparing the advantages and disadvantages of alternative methods of borrowing, the management should study the comparative interest costs of each method and also its relative efficiency with reference both to administrative convenience and to the collection policies of the business.

#### (d) Disposal of Receivables

The general aim of business management is to collect cash for its receivables as promptly and painlessly as possible. Many businesses with special collection problems are forced to maintain a special collection department or collection manager in order to minimize losses from non-collection of accounts receivable. Many businesses find that the use of bank drafts in the collection of accounts is a useful and comparatively inexpensive collection medium. Some businesses prefer to incur additional service charges through discounting receivables with finance companies in order to make use of their collection departments rather than go to the trouble of organizing one of their own. Once payment is received by the business it should be deposited in the business bank account and become subject to the cash controls which already have been discussed.

### 3. INVENTORIES OR STOCK-IN-TRADE

Control and management of the assets which fall under this general heading pose extremely important problems in both merchandising and manufacturing businesses. However, since the problems are somewhat more intricate and extensive in a manufacturing business than in a merchandising business, I plan to direct my remarks primarily to the problems of a manufacturing business with the understanding that some of the techniques described would be equally applicable to some of the administrative problems of a merchandising business.

#### (a) Acquisition of Inventories

The cost of inventories acquired by a manufacturing business includes costs of acquisition of both goods and services. The scope of my topic does not embrace cost accounting but it may be useful to mention the major cost classifications. Costs of *goods* acquired are customarily divided into two main classes (i) *direct materials*: i.e. those goods which enter into the finished product, can be physically identified with it, and whose use tends to vary directly with the volume of output; (ii) *supplies*: i.e., those goods which are used up in the productive process but which do not enter into the physical composition of the finished product and whose use may or may not vary directly with the volume of output. Common examples are cleaning supplies, machine repair parts, machine lubricants, etc. Costs of *services* acquired from employees engaged in manufacturing are usually classified between (i) *direct labour*: i.e., labour expended in the preparation, processing and finishing of the materials or in the operation of those machines which are directly engaged in the processing of the materials, all of which cost may be expected to vary directly with the volume of production, and (ii) *indirect labour*: i.e., labour expended in service and repair departments of the plant and in plant management and supervisory activities. In addition to the indirect labour, other services will be purchased from sources other than employees and these are included with the indirect labour under the general classification *indirect or service costs*, commonly known as factory overhead or burden.

Acquisition of these goods and services represents a considerable cash outlay and it is extremely important that they be purchased in such a manner as to secure for the business the maximum benefit from the expenditures made.

In order to plan any operation efficiently, it is necessary to break it down into its component parts. External purchasing of goods and services involves several separate operations, as follows:

(i) Observation of the need for goods and services to be purchased. In the case of some types of requirements, this will be the personal responsibility of the head of the productive department concerned. In the case of goods handled through the stores department, it will be the personal responsibility of the stores-keeper.

(ii) Notification to the purchasing official or department of the need. This notification may be made verbally or by telephone in cases of extreme urgency but there should be a system of formal written requisitions which will provide a permanent record of the personal responsibilities of the various persons concerned with initiating any purchase action.

(iii) Investigation of the market by the purchasing official or department — this may include the calling for quotations or reference to catalogue prices, etc.

(iv) Placement of the order — preferably by formal issue of a written purchase order on an official, pre-numbered purchase order form. Purchase orders usually are issued in multiple copies and the purchase order form is specially designed to fill the following needs:

(a) authorization to the vendor to ship as of a certain date;

(b) notification to the productive department or stores department requiring the goods that the purchase has been made;

(c) notification to the receiving department that the goods are expected. (On receipt of the goods, it is the duty of the receiving department not

only to notify the productive or stores department that the goods have arrived but to supply the accounts payable (bookkeeping) department with a precise description of the goods received which may be compared critically with the description of the goods ordered, so that any claims for allowances which should be made either against suppliers or transportation companies may be made promptly); (d) notification of the accounts payable (bookkeeping) division of the purchase of the goods and the contract price.

In cases where large quantities of goods are to be purchased at one time it may be a wise buying policy to ask prospective vendors to submit proposals or bids on a competitive price basis. The bids should be opened by a committee or group of officials and the bids tabulated. If the lowest bidder is recognized as a reputable and responsible business concern, the purchase contract should usually be awarded to him.

Disbursements to employees of the business for wages will enter into the costs of inventories of goods in process and of finished goods to the extent that employees are engaged in some one of the productive activities of the business. Payrolls of a business should be the subject of carefully planned control procedures. The payroll office should not be permitted to add names to the payroll or to delete names from it except on formal written authorizations from those officials who actually employ and discharge the workers. These written authorizations should be kept on file as a permanent record.

The control of the total number of hours worked by each employee usually is based on mechanical time clock records through a system whereby each employee punches his own individual time card with the clock's recording device at

the time when he enters the plant and also at the time when he leaves it. The actual punching of the cards must be supervised by some responsible person to avoid the possibility of some workers performing the service for absent friends. It is usual to have an independent check on the wages payable through the detailed records of work actually performed by each employee which form the basis of cost allocations and which should be reviewed critically and initialled by the various foremen or departmental supervisors.

The actual task of preparation of the payroll records and the relevant calculations should be performed and checked by a different set of employees from those who actually make the disbursements. Some method should be provided whereby each workman is required to identify himself in some conclusive manner to the disbursing employee so that there will be no possibility of a dispute arising as to whether or not an employee really received his pay.

A system of disbursement of wages by cheque is usually preferable to disbursement of wages in cash. One advantage is that the written endorsement of the cheque is a written acknowledgment of payment and under Canadian law the bank is responsible for the authenticity of the endorsement on which it paid out the money. Another advantage is that this method of payment permits a much neater control of unclaimed wages, which under a cash disbursement system would represent actual currency lying around in unclaimed pay envelopes. In such a situation some employee would have to be given the responsibility of recording the unclaimed wages promptly and of re-depositing them into the bank account if risk of loss is to be avoided. Another advantage of payment by cheque is the elimination of the danger of armed hold-ups of payroll messengers carrying large sums of cash periodically from the bank to the payroll office. Where this risk is not eliminated, it is a wise to carry insurance against the risk of loss.

*(To be concluded)*

## THIS IS HOW TO DO IT!

### THE QUEBEC CITY BRANCH OF THE CHARTERED ACCOUNTANTS STUDENTS' SOCIETY OF QUEBEC STATEMENT SHOWING HOW WE SPENT OUR MONEY

during the twelve months ended 30th April 1951

We started the period with a cash balance of .....	\$241.42
and we are grateful to Council for a grant of .....	150.00
which gave us a total of .....	<u>\$391.92</u>
to spend during the fiscal year.	
We first paid off an old debt .....	\$ 35.00
and, in September and October, attended to serious matters. A series of six coaching courses were given to candidates at a cost of .....	60.00
On October 7, our softball league was launched. The Society played the L.S.C.'s of Laval (Graduates in Commercial Science) and despite superhuman efforts, bowed	

to a superior opponent. Our despair at losing the Chartré, Samson, Beauvais, Gauthier Trophy was dispelled by the free supper and refreshments provided by the society. The treasury was nicked for .....	33.95
On the 10th of the last "R" month, the society held its annual oyster party. Oysters, sandwiches and refreshments were served at a nominal charge to members and only the wizardry of our treasurer, Roger Stanton, C.A., kept the cost down to .....	8.00
Four days later, the students flocked to the Winter Club for the Annual Dance, also attended by the presidents of the local C.A.'s, C.G.A.'s, R.I.A.'s, L.S.C.'s and H.E.C.'s as our guests. Since we only charged \$4 per couple including midnight supper, the treasurer took it on the chin to the tune of .....	168.14
The second day of February marked the official opening of our hockey league. Then and there, we got rid of the inferiority complex developed after our ignominious defeat at softball and solidly trounced the Income Tax Department to acquire the McDonald, Currie Trophy. Everyone, including spectators and their ladies, repaired to H.M.S. Montcalm where open house was held for all. Local C.A. firms had generously underwritten part of the cost of the evening, but the treasurer nevertheless spent a miserable evening worrying over the size . . . and thirst of the crowd. We are still trying to find out how it happened that this memorable occasion did not cost us a red cent; some jokers insist that it was due to the absence of the chairman .....	
Finally, paper, stamps, stencils, bank charges and a modest gift to the treasurer's secretary depleted our dwindling funds by .....	50.06
After the strenuous effort of disbursing .....	\$355.15
we sat back, looked at our bank balance of .....	\$ 36.27
and thanked our stars there were no debts.	

Quebec, May 5, 1951

MAURICE DE COSTER, C.A.  
*Chairman*

#### AUDITOR'S REPORT

I have examined the books and accounts of The Quebec City Branch of the Chartered Accountants Students' Society of Quebec (*ouch!*) for the twelve months ended April 30, 1951 and I have obtained satisfactory answers to my numerous requests for information and explanations.

While I do not necessarily endorse the fanciful text of the above statement, I wish to report that, in my opinion, it represents accurately the painful financial position of the Branch as at April 30, 1951 and the result of its operations for the period under review, according to the information and explanations given to me, and as shown by the bank pass-book of the Branch.

Quebec, May 7, 1951

JACQUES GINGRAS, C.A.

# Business Management In the Automotive Industry

By B. A. Gunn, C.A.

The automobile business requires the co-operation  
of manufacturer and auditor in the interests of the dealer

**T**ODAY, more than ever, the results of a business enterprise, in terms of net profit and return on investment, are dependent upon the efficiency of management. The franchised automotive dealer is no exception to this requirement. Indeed, the efficiency of management is a must in his business for where else do you find such fast moving activity, such call for quick decision, such need for planning and organization? The automotive dealership is several businesses wrapped into one. They all require to be properly coordinated. If they are not, the result usually is a "house divided against itself".

## Manufacturer's Concern for Dealer

You may ask the question, "Why is the automobile manufacturer so concerned with the detailed operations of the independent franchised dealers?"

There are several reasons. First, a close relationship must exist between the manufacturer and the dealer if mutually satisfactory results are to be maintained. Secondly, management in dealerships depends largely upon policies established by the manufacturer

insofar as marketing of product is concerned. New policies, therefore, must be considered in the light of their effect upon the dealer organization. It is only by a knowledge of the facts that the manufacturer can establish policies that are fair and equitable to dealers and in the best interests of both parties.

The automobile business is one of the most competitive, and when all is said and done the manufacturer is no stronger than the dealer organization merchandising his products. It is only natural then for the manufacturer to be concerned about the continuing strength of his dealers; to be concerned about their strength of finances, their adequacy of facilities, their ability to trade competitively and, lastly, their ability to enjoy the benefits of their franchise to the fullest extent possible and so add to the strength of their position in their community.

The study of trends in dealer operations must be continuous in view of the constant changes in merchandising and operating conditions affecting dealers. Here is where business management begins to function. Our com-

An address to Windsor and District Chartered Accountants Association, February 26, 1951

pany, for instance, maintains a group of specialists whose responsibility it is to interpret dealer operating results to management and to render a similar service to dealers themselves. With a current knowledge of national and regional dealer experience they are able to provide the individual dealer with the means of measuring his own performance in all departments of his business. In addition, the dealer is provided with advice and guidance on the internal management of his business. Where necessary, the business management personnel of the company help the dealer smoke-out his trouble spots and actually assist him at the dealership in taking the required corrective steps.

#### Uniform Accounting by Dealers

The effectiveness of this service to the dealer depends upon the cooperation of all the dealers in submitting their monthly financial statements to the manufacturer. This procedure supplies the facts to the manufacturer which are so important in the establishing of merchandising policies. It also enables the manufacturer to group the dealers' statements appropriately and compile composite results so that each dealer can compare his accomplishments with the group averages. In addition, these monthly statements and composite averages serve as the basis for constructive analyses by which the manufacturer can make suggestions for operating improvements which, of course, reflect themselves in the profit return to the dealer.

It should be borne in mind that financial statements received from dealers are handled in the most confidential manner. They are available only to such personnel of the company as are in a position to directly assist the dealer in correcting areas of weak-

ness and in improving his operations. These statements are the manufacturer's only direct source of information for observing dealer trends.

For the comparative operating data derived from dealers' monthly financial statements to be of any value there must exist among the dealers a high degree of uniformity in recording transactions of similar nature. It is extremely important that the accounts maintained by the dealer conform with a uniform chart of accounts. For this reason, our company has developed the Ford of Canada Dealers' uniform accounting systems, of both the standard and simplified types.

The manual of accounting procedure is the chief guide to uniformity. Its instructions are sufficiently broad and flexible to permit adaptations of routine where these may have to be made to meet the need of individual dealerships. However, it is important that there should be no major deviations and departures from important principles, which would distort comparative figures so that they become meaningless or misleading to anyone attempting to interpret them.

#### Role of Accountancy

One way to describe business management is to say that business management takes up where accounting leaves off. Accounting, in itself, will not remedy an unsatisfactory situation. It does, however, provide a medium through which weaknesses can be detected. The successful business man is the one who locates and corrects unsatisfactory conditions in his business and at the same time lays plans to maintain and improve those operations that are functioning satisfactorily.

You have all seen at some time or another a cut-away model of an engine

with a glassed-in side which enables you to see the movements of pistons, crankshaft, and gears, and to check the timing, sparking, lubrication and wear on various parts. I like to think of accounting as being the window through which the operation of a complicated piece of machinery is continually being observed. Unless the glass window is clear and uniform and throws sufficient light upon the specific parts that need constant watching, the picture seen is distorted or obscured or out of true proportion. So it is with a dealer's accounting system — and the picture of his operations which it reflects.

I also like to think of the dealer's financial statement as something real and usable in his business. To be such an instrument it must be fresh and must depict the latest picture for the dealer. It therefore must be capable of being prepared in the shortest possible time each month. We have dealers who have their statement within the first five days of the month following closing date. We would like to see every one of our dealers with his statement off before the tenth of the month. Unless this can be done, and done regularly, it is difficult to adjudge the dealer as being efficiently organized in his operations.

#### **Streamlining Accounting Procedure**

It is important that the uniform accounting system be kept up to date. Our company has just completed a full revision of the standard system. It is designed to give dealers the information which they consider most necessary to the proper management of their affairs. Months were taken gathering the latest thinking on dealer accounting methods in many sections of the country, talking with manufacturers both in Canada and the United States.

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Mr. Bernard A. Gunn, C.A., was admitted to the Alberta Institute in 1936 and prior to World War II was senior assessor for the Alberta income tax department. After wartime military service, in which he attained the rank of Lieut.-Colonel, he was appointed assistant director of the Mutual Aid Board. In 1946 he was appointed secretary and assistant to the president of the White Motor Company of Canada, and in 1948 became manager of the business management, sales and advertising division, of Ford of Canada.

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Dealers and dealers' auditors were consulted with a view to eliminating excessive or burdensome detail.

Thus it will be seen that the uniform accounting system recommended by the manufacturer is the result of years of specialized experience in the industry and, when followed, furnishes the dealer with the information which those years of experience have proved he needs most in the successful operation of his business.

It is important that the auditor of a dealer's business realize that it is a trading business. It needs to be recognized that an automobile dealer is not selling packages of groceries or items of housefurnishings which are offered at the same price everywhere in the country all the year around. The accounts of the dealership and the resulting financial statement must therefore provide the dealer with certain information peculiar to the industry.

For instance, as a general rule, a dealer's success in merchandising new cars and trucks is in direct relation to his success in merchandising used cars and trucks. The results of his trading activities and handling of used units must therefore be clearly shown so



that he can properly judge the effectiveness of his efforts and policies.

Then, too, the dealer's break-even point must be readily determined from his accounts and must be capable of being expressed in terms of number of new car or truck sales. This requires a careful segregation of expenses as between variable selling costs and administrative overhead.

#### "Service Absorption"

To operate successfully a dealer must strive to obtain the greatest degree of "service absorption" and so provide himself with the best possible trading margin. He must watch this element of his business continually because a knowledge of this factor establishes his trading flexibility in a highly competitive market.

"Service absorption" is an expression common to automobile dealers today, but is not always readily understood by dealers' auditors and others. It is a contraction of the expression "service department absorption of indirect (administrative) expense". Many of our dealers have been successful in building service and parts volume to the point where the returns from this volume are the equivalent of the entire amount of overhead. When this position is reached the dealer has a foundation for real new car volume for then all new car gross profit, less direct sales expense, is available for profitable trading. His financial statement should therefore be prepared so as to clearly show the degree of service absorption being experienced.

#### Value of Comparative Data

As I stated above there must be a high degree of uniformity among the dealers in recording transactions before a dealer can properly compare his various ratios of sales volume, gross profit,

turnover, expense and balance sheet items with standard averages. This comparative data is compiled regularly and supplied to dealers through our field sales force. Group averages are developed on the basis of various volumes of product sold. Thus the individual dealer can compare his operation, department by department, with the results of a group of dealers similar in size and facilities. This type of information forms the basis whereby the manufacturer can observe various trends in dealer operations. From this knowledge the need of various programs of assistance to dealers becomes evident and thus enables the manufacturer to direct the activities of his field force to the spots where the help is needed most.

In analyzing a dealer's operations a common yard-stick of measurement is applied. In the case of our company this yard-stick is the "per new unit retailed" value. In other words, gross profits, selling expenses, administrative costs, and net profits are all measured in terms of the number of new units sold. In this way a balanced operation as between car and truck sales, service and parts, is set up as an objective for the dealer. This means of measurement establishes his trading margin. If the dealer should be in an "under service absorbed position", this factor is translated into terms of "per new unit retailed" and likewise in terms of the daily amount of money that has to be made up out of new car and truck sales before the dealer can go on to take any net profit.

Standards of operation are continually being developed covering individual phases of a dealer's business. Items of expense can be budgeted on the basis of percentage of sales volume, gross profit, or per employee involved in the department concerned. These are some



of the important features embodied in the uniform accounting system, which the approved financial statement is designed to highlight for the dealer.

#### Importance of the Auditor

We, as the manufacturer, are well aware of the important regard in which the dealer holds his auditor. We know the degree of confidence which he places in his advice and counsel. Because of our close relationship with the dealer it seems logical that the auditor should have a clear understanding of our purpose. Therefore, when we request the dealer to prepare his financial statement on a uniform basis with all other dealers holding our franchise, there are reasons which justify the request. They are reasons which we feel the dealer's auditor should know and understand when discussing the subject with the dealer.

There may exist a feeling among some of the profession that business management has been created as an accounting service to the dealers. This point I would like to clarify. Although our personnel are prepared to discuss accounting problems with the dealer and his staff, it is the policy of our company to recommend to the dealer that he obtain the services of the profession for system installation purposes. We merely request that the system be installed in accordance with the uniform accounting procedure established for our dealers.

We, in business management, are satisfied that our best work or most effective effort lies in the realm of assisting the dealer in planning his operations, in keeping his sights in line with the reasonable share of the market which is his for the going after. It takes proper organization and control for the dealer to obtain that proper share and it takes sound man-

agement on his part to retain the fullest benefits of the franchise in terms of net profit.

I cannot help but wonder to what extent the dealer organization would reflect increased efficiency and success in operation if the accounting profession were to assist the dealer more through counseling and forward-thinking in the planning of his attack against the market, while at the same time helping him streamline his organization. In the first place, the auditor has the complete confidence of the dealer. It would be a relatively simple matter for the auditor to interpret the results of operations and to make forward recommendations. Many things about the dealer's operations must appear quite obvious to the auditor, but how many times is the point in question drawn to the attention of the dealer? Is the profession perhaps unaware of some of the opportunities that exist for rendering service to business today?

In no way do I intend to minimize the service which the profession is rendering at the present time. For instance, dealers find the accountant's advice and guidance respecting taxation most invaluable. All I say is, why stop there?

We, as a company, consider we are no stronger than our dealer organization. We also feel that the strength of our dealer organization can be improved and maintained through a mutual understanding between the dealer's auditor and ourselves as to what is in the best interests of the dealer.

#### Accounting Routines

Speaking of the interests of the dealer, I would like to suggest that, before recommending major deviations in accounting routines to the dealer, the effect of the deviation on the ele-

ment of uniformity be carefully weighed. Where changes in the uniform system appear to be desirable, after taking into consideration the peculiar requirements of this business, we will welcome suggestions — through the dealer. All we ask is that a change should not be put into effect until it can be applied universally among all of our dealers.

A knowledge of the peculiarities of the automobile business may serve to broaden appreciation of the role which auditors can play in serving the auto-

mobile industry. As an industry in Canada it is in third position, led only by agriculture and by pulp and paper. In no sense of the word, therefore, can we afford to let the accounting profession feel that we, as a manufacturer, have a hands-off attitude towards them where our dealers are concerned. Rather, we solicit the professional accountant's support of the practices which are recommended to our dealers, based on sound business management principles.

### WHO SAID CHARTERED ACCOUNTANTS ARE INARTICULATE?

Although chartered accountants of today are sometimes spoken of as the "silent service", we have reason to believe that their professional forefathers were thoroughly versed in the art of the well turned phrase. Recently our attention was called to the reply given by Mr. H. N. Kitson, C.A. following the "Toast to the Ladies" at the eighth annual dinner of the then Dominion Association of Chartered Accountants, Toronto, July 15, 1910,—

"I think it is the greatest of mistakes to ask a man to speak on behalf of woman when she is present, because no matter how eloquent a man is, though he had the eloquence of a Wendell Phillips, there is none of us who can adequately speak for woman, none can adequately plead her cause but herself — woman needs no advocate but herself. The sheen of her hair, the flashing of her eye, the curve of her mouth, the scarlet of her lip, the tenderness of her nature, the readiness of her faith, the colour of her complexion, the melody of her voice, the witchcraft of her being, the grace and symmetry of her form all plead for her with an irresistible eloquence. Nevertheless, I deem it a very great honour to be privileged to speak to this toast; we talk of the great prospects of this country, of our great prairies, our unlimited resources, but I tell you the greatest strength and the greatest asset upon which Canada can pride herself is her glorious and splendid womanhood. I give you the toast of Women —

'Our arms, your defence,  
Your arms, our recompense.'"

*Assistant editor's note:*

Of course it could be that the subject had something to do with the inspiration.

# Annual Meetings of the Institutes

## ELECTION OF OFFICERS

### Alberta

The 40th annual meeting of the Institute of Chartered Accountants of Alberta was held on June 22, 1951.

The following officers and members of Council were elected for the year 1951-52:

*President:* A. G. Burton

*Vice-Presidents:* J. M. Tweddle, Eric Connelly

*Secretary-Treasurer:* M. C. McCannel

*Members of Council:* A. G. Burton, E. Connelly, A. J. Hamilton, J. L. Kergan, M. C. McCannel, J. B. McClary, W. H. Nield, C. A. Richards, J. M. Tweddle

*Representatives on the Council of the Canadian Institute of Chartered Accountants:* J. L. Kergan, A. G. Burton, J. M. Tweddle

### British Columbia

The 46th annual meeting of the Institute of Chartered Accountants of British Columbia was held June 26, 1951.

The following officers and members of Council were elected for the year 1951-52:

*President:* J. E. McIntosh

*Vice-President:* J. L. Helliwell

*Secretary-Treasurer:* H. Norman Lunn

*Members of Council:* E. A. Campbell, C. V. B. Corbet, G. F. Dunn, S. P. Golumbia, E. M. Gunderson, J. L. Helliwell, D. R. Lukin Johnston, J. R. A. Kinninmont, J. E. McIntosh, W. F. Martin, J. M. Moynes, W. Grant Ross

*Representatives on the Council of the Canadian Institute of Chartered Accountants:* J. E. McIntosh, J. L. Helliwell, W. F. Martin

### Manitoba

The 65th annual meeting of the Institute of Chartered Accountants of Manitoba was held on June 26, 1951.

The following officers and members of Council were elected for the year 1951-52:

*President:* William Young

*Vice-President:* Daniel Sprague

*Secretary-Treasurer:* J. A. T. Shelton

*Members of Council:* J. W. Abbott, William Aitken, D. J. Campbell, C. E. G. Earl, S. B. Laing, C. W. Lynde, W. J. Macdonald, T. D. Poyntz, Daniel Sprague, W. D. M. Stewart, J. S. Swinden, H. J. Wookey, J. R. Woodley, William Young

*Representatives on the Council of the Canadian Institute of Chartered Accountants:* William Young, Daniel Sprague, S. B. Laing

### New Brunswick

The annual meeting of the New Brunswick Institute of Chartered Accountants was held on June 25, 1951.

The following officers and members of Council were elected for the year 1951-52:

*President:* E. A. Mowatt

*Vice-President:* G. A. Oulton

*Secretary-Treasurer:* I. E. Laws

*Members of Council:* F. P. Blackmore, W. W. B. Dick, G. W. Hudson, I. E. Laws, J. A. Marven, E. A. Mowatt, G. A. Oulton, J. F. O'Neill, George Smith  
*Representatives on the Council of the Canadian Institute of Chartered Accountants:* G. A. Oulton, G. W. Hudson

### Newfoundland

The annual meeting of the Institute of Chartered Accountants of Newfoundland was held on June 29, 1951.

The following officers and members of Council were elected for the year 1951-52:

*President:* R. B. Moyse

*Vice-President:* J. Hyslop

*Secretary-Treasurer:* J. C. Newland

*Members of Council:* G. W. D. Allen, H. R. Brookes, C. D. Drysdale, J. Hyslop, R. Leith, R. B. Moyse, J. C. Newland

*Representatives on the Council of the Canadian Institute of Chartered Accountants:* R. B. Moyse, J. Hyslop

### Nova Scotia

The annual meeting of the Institute of Chartered Accountants of Nova Scotia was held on June 21, 1951.

The following officers and members of Council were elected for the year 1951-52:

*President:* William Wood

*Vice-President:* J. G. Vickery

*Secretary:* D. F. C. Burton

*Treasurer:* R. C. Buchanan

*Members of Council:* A. I. Barrow, D. F. C. Burton, E. M. Davison, C. W. Gurnham, G. E. Hayman, G. L. MacKinnon, L. E. Peveril, F. L. Silver, H. E. Spencer

*Representatives on the Council of The Canadian Institute of Chartered Accountants:* William Wood, J. G. Vickery

### Ontario

The annual meeting of the Institute of Chartered Accountants of Ontario was held on June 27, 1951.

The following officers and members of Council were elected for the year 1951-52:

*President:* J. A. Wilson

*Vice-Presidents:* B. A. Armstrong, W. L. L. McDonald

*Secretary:* D. A. Ampleford

*Treasurer:* W. M. Brace

*Members of Council:* D. A. Ampleford, B. A. Armstrong, G. W. Benson, W. M. Brace, M. A. Bradshaw, H. E. Crate, J. W. Glendinning, W. I. Hetherington, W. L. L. McDonald, H. R. Macdonald, W. T. Millard, G. H. Spence, W. F. Williams, J. A. Wilson, J. R. M. Wilson

*Representatives on the Council of the Canadian Institute of Chartered Accountants:* J. A. Wilson, B. A. Armstrong, W. L. McDonald

### Prince Edward Island

The annual meeting of the Institute of Chartered Accountants of Prince Edward Island was held on June 16, 1951.

The following officers and members of Council were elected for the year 1951-52:

*President:* T. E. Hickey

*Vice-President:* Mrs. E. P. MacPherson

*Secretary-Treasurer:* P. A. Lawrence

*Members of Council:* J. W. Dixon, T. E. Hickey, P. A. Lawrence, J. R. Leard, Mrs. E. P. MacPherson, R. W. Manning, W. E. Massey, W. A. Morrell, B. M. Sears, W. G. Thompson

*Representatives on the Council of the Canadian Institute of Chartered Accountants:* B. M. Sears, T. E. Hickey

### Quebec

The 71st annual meeting of the Institute of Chartered Accountants of Quebec was held on June 27, 1951.

The following officers and members of Council were elected for the year 1951-52:

*President:* G. M. Hawthorn

*First Vice-President:* J. A. de Lalanne

*Second Vice-President:* Rosaire Courtois

*Honorary Secretary-Treasurer:* J. G. Hutchison

*Immediate Past President:* Jean Valiquette

*Members of Council for two years:* R. C. Berry, A. W. Gilmour, A. McPherson, R. H. Stanton, G. S. B. Wickes

*Members of Council for one year:* R. R. Bedard, Henri Ferron, C. D. Mellor, Cecil Vineberg, M. Laird Watt

*Representatives on the Council of the Canadian Institute of Chartered Accountants:* G. M. Hawthorn, J. A. de Lalanne, Jean Valiquette

### Saskatchewan

The annual meeting of the Institute of Chartered Accountants of Saskatchewan was held on June 23, 1951.

The following officers and members of Council were elected for the year 1951-52:

*President:* H. S. Moffet

*Vice-President:* H. A. Hunt

*Secretary-Treasurer:* Thos. H. Moffet

*Members of Council:* R. L. Bamford, W. H. Cook, L. E. Fingarson, H. A. Hunt, S. O. McMillan, H. S. Moffet, Clair H. Smith, J. H. Thompson, S. A. Wik

*Representatives on the Council of The Canadian Institute of Chartered Accountants:* S. O. McMillan, H. S. Moffet, H. A. Hunt

## Recent Books

**Studies in Accounting**, edited by W. T. Baxter; published by Sweet & Maxwell Ltd. (London); pp. 455; price £13.6

Can accounting be translated from the realm of prosaic materialism, a stodgy world of figures, correct, indisputable and entirely frigid, to a dynamic world, full of possibilities which challenge interpretation and portrayed in figures of exciting variety? W. T. Baxter, Professor of Accounting at the University of London, editor of this series of reprints, shows that it can. His introductory preface is alive with his own breezy personality and has a freshness and whimsical humour calculated indeed to raise the hopes of the reader.

Nor is the reader disappointed. The collection starts with Professor H. R. Hatfield's masterly defence of his "houn' dog of accounting":

No matter if he is a houn'

They gotta quit kicking my dog aroun'.

He traces its history from the publication of the first treatise on bookkeeping by the friend of Leonardo da Vinci, Luca Paciolo, Professor of Mathematics, down to modern times, proving its worth for university study alongside the older subjects of the arts and sciences. Here in one brilliant sentence is the unsolved problem of accounting: "And so accountants are asked to perform the hopeless task of taking this economic continuum, of chopping it up into arbitrary and meaningless lengths called a year, and apportioning to each such year a proper part of the cost of a building which will last fifty years,

of a blast furnace which will last ten and of a stock of coal bought in December which will all be consumed before spring again appears." This is indeed the literature of accounting.

For sheer thrilling and breath-taking interest John McCarten's "The Greatest Accountant in the World", which comes in the next section, would rank high in any short story class. This is the amazing story of the accountant, Canadian-born and a graduate in civil engineering at the University of Montreal, who led a life of incredibly brilliant improvisation in New York. The revelations of purely fictitious accounts, for no self-seeking fraudulent intent, opened up by a chance telephone call, read like pure fantasy.

But the book passes on to sterner stuff. It ranges through the law of company dividends, internationally known cases all-too-little studied by students in this country; various aspects of accounting presentation; Lord Melchett's short article on "The Share of No Par Value", well worth study in a country where such shares are legal, as contrasted with Britain which has steadfastly rejected them; recent tendencies in the preparation of consolidated balance sheets; accountants and management; chairman's speeches. And so we come to Kenneth MacNeal's provocative and challenging "What's Wrong with Accounting?" Here are traced many of the inconsistencies to which accountants are committed as they carry out the generally accepted principles of accounting — the carry-

ing of fixed assets on the balance sheet at original cost as "going concern value", the rule of anticipating losses but never of profits until they are realized, the emphasis on "book figures rather than on present facts that lies at the bottom of such occurrences as the McKesson and Robbins situation". This is another fraud of incredible magnitude that occurred in our midst and had an amazing effect in altering standard auditing practice in North America.

The latter half of the book is given over, in some form or other, to the most difficult and pressing accounting problem of to-day, that is, the measurement of income in accounts. This sub-

ject is expounded by economists and accountants on both sides of the Atlantic. In his preface Professor Baxter calls for a reasonable discrimination between particular circumstances.

What a wealth of reading matter for the keen student! This is said to be only the first of a series of such volumes sponsored by the Association of University Teachers of Accounting, those to follow being intended to deal with costing and other branches of the subject of accounting. If they maintain the same high standard as this first volume they will be welcome indeed.

KENNETH F. BYRD, M.A., B.Sc. (Econ.), A.C.A.  
*McGill University*

## Professional Notes

### BRITISH COLUMBIA

Mr. James Brown, C.A., announces the opening of an office for the practice of his profession at 1379 Marine Dr., West Vancouver.

\* \* \*

Mr. Patrick M. Reynolds, C.A., 640 Burrard St., Vancouver, announces the admission to partnership of Mr. W. L. Turnbull, C.A.

\* \* \*

Mr. A. Harry Affleck, C.A., announces the removal of his offices to the Zeller Bldg., 604 Columbia St., New Westminster, B.C.

\* \* \*

Mr. Roger M. Hoyland, C.A. announces the removal of his office to Rm. 206, 602 W. Hastings St., Vancouver.

### ONTARIO

Mr. Charles J. McCabe, C.A., announces the admission to partnership of Mr. C. James O'Keefe, C.A. Henceforth practice of the profession will be conducted under the firm

name of C. J. McCabe & Co., Chartered Accountants, with offices in the C.P.R. Bldg., Toronto.

### Hamilton and District C.A. Association

The annual golf tournament and dinner meeting of the Hamilton and District Chartered Accountants' Association was held on June 13, at the Brantford Golf and Country Club with over 50 members present. In spite of some inclement weather, the golf tournament was highly successful and following the dinner, the association held its annual business meeting and election of officers. Mr. Malcolm Sutherland was elected chairman of the executive committee for the coming year. Mr. Frank Campbell and Mr. Kenneth Lemon, president and past-president respectively of the London association, attended as guests of the Hamilton association.

\* \* \*

Geo. A. Welch & Co., Chartered Accountants announce the opening of offices at 244



Pinnacle St., Belleville, with Mr. Robert Irvine, C.A. as resident manager, and at 141 Augustus St., Cornwall, with Mr. Weldon J. Davy, C.A. as resident manager.

#### Ottawa Chartered Accountants Club

The Chartered Accountants Club of Ottawa held a golf tournament at the Royal Ottawa Golf Club on June 19, 1951. E. D. Martin won the McDonald Currie trophy for low gross and R. A. Levesque won the Price Waterhouse trophy for low net. Sealed hole winners were A. C. Brittain, R. Humphrys, A. S. Merrikin, J. Ross and W. E. Williamson.

#### QUEBEC

##### Quebec Students' Society

On June 18, the Chartered Accountants Students' Society of Quebec held its annual

golf and tennis field day at the Mount Royal Golf Club. The F. W. Sharp trophy for tennis was won by Marcel Renaud, C.A. The golf tournament ended in a three-way tie with Ian Ballantyne, Elliott Godel, and C. F. G. Heward having a low gross of 77. The three winners tossed a coin for the Dunton Cup and Ian Ballantyne was fortune's favourite. R. C. Neale came second in the golf tourney with a low gross of 78.

#### SASKATCHEWAN

##### Saskatoon

##### Chartered Accountants Association

The following officers of the Saskatoon Chartered Accountants Association were elected for the 1951-52 term: *president*, Mrs. Eva M. Leger; *vice-president*, C. J. Kirkpatrick; *secretary*, E. L. Pendlebury; *executive member*, R. M. Dill.

## News of our Members

Recently a course in "Accounting for Lawyers" was given at the Victoria College by Messrs. Robert J. Taylor, C.A. and Richard A. Roberts, C.A. of the firm of Richard C. Field & Co., Chartered Accountants, Victoria. This course was designed to meet the specific accounting problems which lawyers encounter in many of their dealings with clients.

Mr. P. T. R. Pugsley, C.A. (Que.), was elected president of the Junior Chamber International at its sixth world congress at the Windsor Hotel, Montreal.

\* \* \*

The Great-West Life Assurance Company has announced the appointment of James A. Hillman, C.A. (Man.), as chief accountant.

## Obituary

### Christopher Charles Tollit

The Institute of Chartered Accountants of Quebec announces with deep regret the death of Christopher Charles Tollit on June 1, 1951 in his 52nd year.

After service in World War I, Mr. Tollit graduated from Cambridge University, with a Master of Arts degree, and was then articulated to the firm of Cooper Brothers & Co., Chartered Accountants, London. He

was admitted to membership in the Institute of Chartered Accountants of England and Wales in 1926 and in that year was sent to New York as resident partner for his firm. Mr. Tollit was admitted to membership in the Quebec Institute in 1936, when Cooper Brothers & Co. opened an office in Montreal.

The members of the Institute offer sincere sympathy to his widow and family.

# The Students' Department

J. E. Smyth, C.A., Editor

## NOTES AND COMMENTS

**T**HIS is holiday time, the time of our lives and the season of the year meant for relaxation.

Come to think of it, that word "relaxation" is a bit lazy itself if it only brings to mind a vision of a magazine and a lawn chair, or of a fishing rod and a punt. Relaxation is not, after all, one's environment; it is a state of mind. For at least two weeks in the year we should all of us — and we would even go so far as to include accounting students — take a rest from our ambitions and our aspirations. Just relax.

If we are honest with ourselves and can remember that far back, we will recall that when we were in high school our ambition was to graduate. And then if we went to university the one end of our existence was to graduate. And if we did graduate and apprenticed as a student-in-accounts, it became perfectly obvious that we were of the lowest form of human existence until we became a chartered accountant. We will not take the matter from there, but we will say we have even heard rumours of chartered

accountants who were not perfectly contented.

How well we remember undergoing a reaction to all this business of everlastingly aspiring onwards and, possibly, even upwards. We were coming home on the street-car, tired, and rather frustrated with the difficulties that seemed to lie in the way of passing some rather imminent accounting examinations (next day, in fact). Then it all came to us — if one could not enjoy life as it is, *now*, he would just go on aspiring himself right into the grave. Believe it or not, we succeeded in passing the examinations somehow, in spite of this dangerous philosophy. (Of course we realized shortly afterwards that we would have to abandon it if we were ever to get ahead in the world.)

But we have never quite forgotten that soliloquy on the street-car, and one Sunday afternoon last May we happened to turn on The Canadian Broadcasting Corporation and heard what we thought was a remarkable address. We reprint below as much of it as space will permit.

## THE BEST YEARS OF OUR LIVES

*(A sermon delivered by*

*Rabbi D. C. Kogen, Congregation Beth Israel, Vancouver)*

Because we want to get the most out of living, we are inclined to ask this question: "What are the best years of

our lives?" We want to know so that we may hold on to them and cherish them. Is it our childhood days? The

days of our youth, middle age, or old age?

Many of us utter wistfully the wish, "O for those happy carefree days, days of innocence and purity. Days that were free of anxiety and responsibility! Those were the best years of our lives." But we forget the heartaches of childhood, its growing pains and illnesses, its confusion and fears. We forget that the grief of a child over a broken toy is as painful and real as the grief of an adult mourning over the loss of a dear one. Children are irritated by the restrictions of their parents, and they long for the days when they can throw them over to be free. They wish to grow up quickly, especially in our day and age. Surely, they do not consider their childhood days as the best years of their lives.

Are the best years those of youth? Ponce de Leon, famous explorer and man of wealth, sought in vain for many years the fountain of youth. He died a disappointed man. We all envy youth. Youth has strength, vitality and imagination. Youth is not burdened with responsibility. It is adventurous, romantic, idealistic. It weaves dreams, it takes risks. The whole world worships youth. But is it the best years of life? We overlook the heartaches, the problems, and the disillusionments of youth. Youth trails clouds of glory that rapidly vanish. We forget the perplexities that constantly beset youth, the discouraging struggles, the uncertainties in getting a foothold in life, in business, or in a profession. Youth frequently encounters disappointment, pangs of unrequited love. Do those of us who are firmly established in careers, enjoying security and recognition, want to go back to the days of our youth? Ask young people and you will learn that they do not regard their days as the best years of life.

Would you say that middle age rep-

resents the best years of our lives? To be sure, in a way it does. It is then that we are at the prime of life, that we attain maturity. When we reach middle age, we experience the delights of a serene, happy home life. We have the pleasure of seeing our children grow up and set out on the right path of life. We rejoice as we watch our children graduate from school, win honours, stand under the canopy of marriage. Yet, speak to people of middle age, and you will hear them complain about their graying hair. Sadly they will tell you that the prime of life endures only for a brief moment. They begin to feel the first signs of failing strength. They tire quickly and need more rest. They dislike the fact that they are forced to reduce the pace of living. In middle age we show symptoms of weariness and fatigue, we long for leisure and tranquillity.

Does old age include the best years of life? In Hebrew literature old age was exalted as a crown of glory. The poet Robert Browning, who caught the Jewish spirit, wrote in his poem *Rabbi Ben Ezra*, "Grow old along with me! The best is yet to be; the last of life for which the first was made." Though many contribute their best efforts in middle age, history is rich in examples of men and women who made the greatest contribution in their old age. When Moses first stood before Pharaoh, he was 80. Goethe wrote his *Faust* as a very old man. Churchill emerged as the saviour of Britain, leading it through a most critical period of its history, as an old man. Bernard Baruch and Henrietta Szold reached the pinnacle of their usefulness to society in their 80's. In old age we have the opportunity to fulfil the best of life for which the first was made. We can fold our hands in our twilight years and rest content that our labours are ended and that we can reap the harvest of our planting. In

old age, the storms of life have abated. Greed and passion have lost their grip on us. We become mellowed. We can take a side seat, watch calmly and objectively the stormy scenes of life. Old people may have visions, wisdom and discernment. We speak of some old people as a "grand old man" or a "grand old lady". Yet, who would say that old age represents the best years? Old age is usually accompanied with ailments. We become irritable, impatient, a little cynical. We fear for the morrow, and we cry out: "Forsake us not in our old age when our strength fails us." If you want to know whether old age is the best years of life, go to old peoples' homes, speak to the old people and they will tell you tales of loneliness, of heartaches, of feeling useless, of being forsaken and neglected.

When and what, therefore, are the best years of our lives? Childhood, youth, middle age, or old age? Each period has its glories as well as its tribulations. The answer is that the best years of our lives are NOW. In whatever age level you are, *now* are the best years. It is the *present* that is most precious. The best years are now, because ten years from now you will be saying, "If I were only ten years younger." The truth is that right now you *are* ten years younger. Now is the best time, even while there is turmoil, insecurity and unrest in the world. If evil exists, it is your challenge to remove it and to improve life about you. No matter what happens, now is the best time.

One of the major reasons that many of us never reach the best years of our lives is that we constantly put off and postpone the things we want to do, and never get to do them. Each of us —

everyone — carries a treasure-box of unfulfilled dreams. We all have our personal utopias and golden age visions. People often promise themselves, "Oh, when I become financially better established and the stress of business will abate a little, I will take off some time for my family. When I have more time, I shall give the children a little more attention. When I become more economically secure — tomorrow — I shall read those books I always wanted to read. I shall give more time to the needs of my community." But rarely does this tomorrow come. When the tomorrow comes, the opportunities are lost. The children are no longer children, and have grown away from us. The desire to read has disappeared, as has the intention to devote time and effort to worthwhile causes. Time rushes by and changes us. We cannot enjoy tomorrow the things which we should have enjoyed today.

But how can we make this year the best year of our life? What pattern and design is one to follow? What technique is one to apply? There is an interesting statement in the Talmud that offers such guidance: "There are things the fruit of which man eats now, in this world, while the principal is stored up for him in the future world to come. Some of these are: hospitality, kindness, human friendship, prayer, and studying the Holy Books." The Rabbis expressed an interesting truth. A businessman knows that he must lay aside capital for the future — a monetary reserve for a rainy day. He must not dissipate it or use it now if it is to be saved for the morrow. But when it comes to spiritual assets and capital, you can only save them for the future by using them today and now.

## PUZZLE

George was trying to tease a monkey sitting on top of a barrel-organ. But, although he walked all around the barrel-organ, the monkey always turned so as to face the boy the whole time.

When the boy had walked around the organ, had he walked around the monkey?

(By Charles F. Bishop, author of  
*101 Amusements for All*)

## SOLUTION TO LAST MONTH'S PUZZLE

5 horses @ \$10 .....	\$ 50
1 pig @ \$3 .....	3
94 sheep @ 50c. ....	47
	<hr/>
	\$100
	<hr/>

## PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by qualified accountants and reflect of course the personal views and opinions of the various contributors. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

## PROBLEM 1

## Intermediate Examination, October 1950

*Accounting II, Question 4 (20 marks)*

C and D operate a clothing distributing business on a partnership basis. Mr. C. due to ill health, wishes to retire from the business and D is unable to carry on alone. The E Co. Ltd. is interested in the business and has submitted to C and D a tentative offer of purchase dated 2 Jan. 1950.

Under the terms of the offer the E Co. Ltd. is to take over the assets and assume the liabilities of the partnership as at that date in return for shares in the E Co. Ltd., to be issued to the partners for their interest in the business.

The following are the pertinent details of the contract and of the operations of the partnership since formation:

- (a) At the outset of the partnership on 1st May 1948 C and D contributed \$60,000 and \$25,000 respectively and were to draw monthly salaries of \$300 each for their services. They were to share any remaining profits or losses of the business in the ratio of 2:1.
- (b) For their interest in the partnership C and D are to be paid on the basis of:
  - (1) Assets at cost less depreciation, if any, less any liabilities.
  - (2) Goodwill is to be calculated as 150% of the excess of the average annual profits over 10% of the net tangible assets as at 31 Dec. 1949.
- (c) No satisfactory books of account have been kept of the operations of the partnership but the following details of cash receipts and disbursements are available:

1948 from 1st May	Receipts	Disbursements
Capital contributed by the partners .....	\$ 85,000	
Bank loan .....	10,000	
Collections from customers .....	185,000	
Merchandise creditors .....		\$165,450
Operating expenses .....		77,346

# The Students' Department

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Partners' salaries .....	4,800
Fixtures purchased 1st May .....	3,600
1949	
Collections from customers .....	340,596
Withdrawals C .....	5,000
Withdrawals D .....	6,000
Merchandise creditors .....	250,492
Operating expenses .....	86,544
Partners' salaries .....	6,000
Fixtures purchased 1st June .....	4,500
Sales were 1948 (8 months) .....	\$265,000
Sales were 1949 .....	397,500

Of the accounts receivable as at 2 Jan. 1950 it is estimated that \$9,000 is uncollectible.

Inventories on hand at that date cost \$45,500 and include merchandise costing \$24,500 not paid for at that date.

Aside from the unpaid purchases the partnership liabilities consist of the loan from the bank made in 1948, and unpaid salaries of the partners for 2 months.

- (d) In arriving at the valuation to be incorporated in the terms of the proposed purchase offer, it is agreed that:

- Inventory as at 2 Jan. 1950 is worth only 50% of the cost as noted above. This reduction in value thereof is to be spread 2/5 to 1948 and 3/5 to 1949.
- Operating expenses are to be regarded as having accrued in the year in which paid.
- Cost of merchandise sold and bad debts are to be prorated over each of the two years in proportion to sales.
- Fixtures are to be depreciated on a straight-line basis at 10% per annum.

## Required:

On the basis of the foregoing information and terms of the offer to purchase the business prepare:

- Statements showing the profit and loss for the
  - 8 months ended 31 Dec. 1948 and
  - 12 months ended 31 Dec. 1949.
- Statement showing the calculation of the goodwill of the partnership.

## A SOLUTION C AND D

### STATEMENT OF PROFIT AND LOSS for the periods noted below

	8 months ended 31st December 1948	12 months ended 31st December 1949
Sales .....	\$265,000.00	\$397,500.00
Cost of sales .....	157,976.80	236,965.20
Gross profit before adjustment .....	107,023.20	160,534.80
Inventory adjustment .....	9,100.00	13,650.00
Gross profit .....	97,923.20	146,884.80
Operating expenses .....	\$ 77,346.00	\$ 86,544.00
Bad debts .....	3,600.00	5,400.00
Depreciation 10% .....	240.00	622.50
	81,186.00	92,566.50

Net profit before partners' salaries .....	16,737.20	54,318.30
Partners' salaries .....	4,800.00	7,200.00
Net profit .....	<u>\$ 11,937.20</u>	<u>\$ 47,118.30</u>

(b)

## C AND D

## STATEMENT OF CALCULATION OF GOODWILL

as at 2 January, 1950

Cash .....	\$ 10,864.00	
Accounts receivable (net) .....	127,904.00	
Stock on hand .....	22,750.00	
Fixed assets .....	\$ 8,100.00	
Less depreciation .....	862.50	7,237.50
		<u>\$168,755.50</u>
Accounts payable .....	24,500.00	
Bank loan .....	10,000.00	34,500.00
Net value .....		<u>\$134,255.50</u>
Net profit 1948 .....	16,737.00	
1949 .....	54,318.50	
Total net profit .....	<u>71,055.50</u>	
Average annual net profit 3/5 of \$71,055.50 .....		\$ 42,633.30
10% of net tangible assets as at 31st December 1949 .....		13,425.55
		<u>\$ 29,207.75</u>
Goodwill 150% of \$29,207.75 .....		<u>\$ 43,811.63</u>

## Editor's Note:

In the editor's opinion the calculation of goodwill in part (b) might instead have been based on the average annual profit after partners' salaries, particularly because part (a) of the solution above describes the profit after partners' salaries as "net profit".

## PROBLEM 2

## Final Examination, October 1950

*Accounting II, Question 3 (25 marks)*

C has handed to CA the following summary of his 1949 tax payable, as calculated by his personal secretary, and requests that CA check the correctness of this calculation:

## 1949 TAX PAYABLE

## Income:

Salary from D Co. Ltd. ....	\$ 4,000
Business income .....	35,450
Interest .....	7,899
Rental income .....	3,150
Dividend income .....	3,546
Life insurance .....	3,200
	<u>\$ 57,245</u>



# The Students' Department

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Less—expenses:		
Dues and fees .....	\$	1,255
Bad debts .....		1,300
Alimony .....		4,200
Donations .....		4,700
Medical expenses .....		3,050
Salaries .....		1,800
		<u>16,305</u>

Net income ..... \$ 40,940

Less—exemptions ..... 2,400

Net taxable income ..... \$ 38,540

## Tax payable:

on first \$10,000 .....	\$	2,260
2,000 35% .....		700
3,000 40% .....		1,200
10,000 45% .....		4,500
15,000 50% (on \$13,540) .....		6,770
		<u>\$ 15,430</u>
20,000 55%		

## Less:

Taxes deducted on salary from D Co. Ltd. .... 240

Tax payable ..... \$ 15,190

Upon investigation CA ascertains the following information:

### (a) Salary—\$4,000

C, a director and officer of the D Co. Ltd., has received a salary from the company for the year 1949 of \$4,000.

### (b) Income from private business—\$35,450

This figure was computed by the secretary as follows:

Total receipts .....		\$359,000
Cost of merchandise sold (net) .....	\$255,650	
Employees' salaries .....	25,000	
Municipal taxes .....	900	
Depreciation on store building and fixtures (at allowable rates) .....	15,000	
Repairs and other expenses .....	27,000	323,550
		<u>\$ 35,450</u>

Other expenses were found to include \$1,000 covering repairs, upkeep and depreciation of C's automobile which was used for business purposes 50% of the time.

### (c) Interest earned—\$7,899

Interest on savings bank account .....	\$	755
Interest on industrial bonds .....		5,459
Interest on Government of Canada bonds .....		1,650
Interest received from Income Tax Department on refund of overpayment of 1948 taxes .....		35
		<u>\$ 7,899</u>

## (d) Rental income—\$3,150

C owns an apartment house and several hundred acres of land which he leases to the local farmers:

Net rental income from apartment building .....	\$ 3,500
(Rents received \$18,000 less repairs and wages \$8,500 and depreciation \$6,000)	
Less net loss for the year on land leased to farmers .....	350
(taxes and sundry expenses less rentals received)	

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\$3,150

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C occupied, rent free, one of the apartments in his own building. The annual rental thereof has been set by the Rental Control Board as \$1,800.

## (e) Dividend income—\$3,546

The secretary had computed this income as follows:

D Mining Co. Ltd.—net (less 20% depletion) .....	\$ 3,600
(D Mining Co. Ltd. carries on its mining operations entirely within Canada. Depletion allowance of 20% is permitted by tax regulations.)	
E Co. Ltd.—net (less \$60 withholding tax deducted at the source) .....	340
(E Co. Ltd. is a company doing business entirely in the United States of America. The \$340 was received in U.S. funds on which C realized a premium of 10%).	

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\$ 3,940

Less allowance of 10% of dividends as dividend credit .....

394

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\$ 3,546

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## (f) Proceeds of a matured life insurance policy—\$3,200

This sum was received on maturity of the policy and consisted of the face amount of the policy of \$3,000 and \$200 accumulated policy dividends.

## (g) Club dues and membership fees expense—\$1,255

These items have been included by the secretary as a reduction from taxable income since they are expenditures made by C in order to maintain his position in the community and to make business contacts.

## (h) Bad debts expense—\$1,300

This debt consisted of money loaned by C to his brother in 1948. There is no note to support the loan. The brother's death in 1949 precluded the possibility of collecting and C does not wish to press the claim as the net estate going to his brother's widow is only \$5,000.

## (i) Alimony to wife—\$4,200

C is separated from his wife and according to the separation decree must pay her \$350 a month.

## (j) Contributions and donations—\$4,700

Church .....	\$1,000
Y.M.C.A. ....	200
Community Chest .....	500
Political campaign fund .....	3,000

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\$4,700

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All above contributions were paid during the year and are supported by receipts.

(k) **Medical expenses—\$3,050**

These medical expenses, which had not been claimed previously, were incurred and paid as follows:

C—June 1948 hospital and doctor .....\$1,850

C's son (dependent on him)

—October 1948 hospital, nurses and doctor ..... 550

C—August 1949 hospital, nurses and doctor ..... 650

All of which were duly supported by receipts.

(l) **Housekeeper's salary—\$1,800**

This sum represented the wages that C paid to his housekeeper who was employed to look after the apartment and his son, age 18, living with him.

(m) **C was 68 years of age.**

Required:

A statement showing your computation of C's 1949 taxable income and the tax payable by him, ignoring instalment payments and interest thereon.

**A SOLUTION**  
**C'S TAXABLE INCOME**

(a) Salary .....			\$ 4,000
(b) Business income .....	\$35,450		
1/2 of auto expense .....	500	35,950	
(c) Interest .....			7,899
(d) Rental income			
Rentals .....		18,000	
Less:			
Expenses .....	14,500		
1/11 deemed to be personal .....	1,318	13,182	
		4,818	
Less loss on farm .....		350	4,468
(e) Dividend income			
D Mining Co. ....		4,500	
Less:			
Depletion .....		900	3,600
E Co. Ltd. ....		400	
Plus premium on U.S. funds received .....		40	440
			\$56,357
Less:			
Alimony .....			4,200
Income .....			\$52,157
Less:			
Donation .....		1,700	
Medical expenses .....	2,400		
Less 4% of \$52,157 .....	2,086	314	2,014
			\$50,143

Less exemptions 25(1) (a) (iii) .....	2,000	
25 (1) (c) and 25(4) .....	400	
25 (1) (e) .....	500	2,900
		<u>\$47,243</u>

## Tax payable on \$47,243

10,000 .....	\$ 2,260.00	
2,000 .....	700.00	
3,000 .....	1,200.00	
10,000 .....	4,500.00	
15,000 @ 50 .....	7,500.00	
7,243 @ 55 .....	3,983.65	20,143.65

## Surtax on investment income—4% on

52,157 — (4,000 + 35,950 + 1,700 + 314) — 2,900 = 4% of 7,293 = 291.72

\$20,435.37

Less—taxes deducted on salary from D Co. Ltd. ....	240.00	
U.S. tax deducted at source .....	66.00	
10% of net dividend income .....	360.00	666.00
		<u>\$19,769.37</u>

